

Office of Thrift Supervision

Program Summary by Account

(Dollars in thousands)

Budget Activity	FY 2006	FY 2007	FY 2008	
	Obligated	Estimated	Estimated	Increase/Decrease Percent Change
Supervision of the Thrift Industry	199,497	232,500	238,313	5,813 2.5%
Total Cost of Operations	\$199,497	\$232,500	\$238,313	\$5,813 2.5%

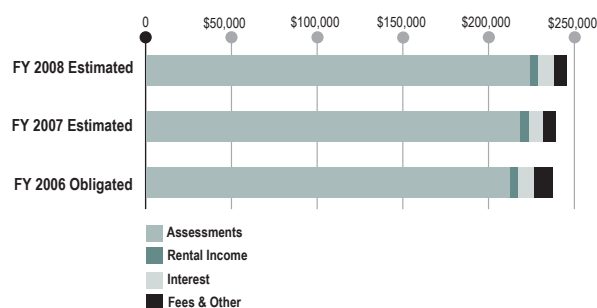
Explanation of Budget Estimate

The Office of Thrift Supervision (OTS) budget supports OTS's strategic and performance goals that provide for the proactive supervision of the industry, reduced regulatory burden, and improved credit availability. The budget enables OTS to continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry. OTS works closely with the industry to maintain the profitability, integrity, and viability of the thrift charter.

In FY 2007, an estimated \$232,500,000 is needed to fund ongoing OTS operations and address program priorities effectively. Estimated OTS revenue for FY 2007 is \$239,000,000, which is derived principally from assessments on savings associations and savings and loan holding companies. OTS receives no appropriated funds from Congress.

OTS Revenue History

(Dollars in Thousands)



Purpose of Program

OTS's mission is to supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws and to encourage a competitive

industry that meets America's financial services needs. OTS's vision is to perform, and to be recognized, as the premier regulator of financial institutions and holding companies.

OTS charters, examines, supervises, and regulates federal savings associations insured by the Federal Deposit Insurance Corporation (FDIC). OTS also examines, supervises, and regulates state-chartered savings associations insured by the FDIC and provides for the registration, examination, and regulation of savings and loan holding companies and other affiliates.

OTS activities address the following key strategic issues and challenges:

- Comprehensive and Risk-Focused Examinations,
- Interest Rate and Credit Risks,
- Compliance Risks, Financial Crimes, and Data Breaches,
- Disaster and Emergency Preparedness,
- Global Financial Services,
- Regulatory Burden Reduction,
- Promotion of the Thrift Charter, and
- Succession Planning and Management of OTS Resources.

Explanation of Budget Activities

Supervision of the Thrift Industry (\$232,500,000 from reimbursable programs) OTS examines savings associations every 12-18 months for safety and soundness and compliance with consumer protection laws and regulations. During these exams, the association's ability to identify, measure, monitor, and control risk is evaluated, including the risk posed by other entities within the corporate structure. When weaknesses are identified, supervisory action is taken.

Legislative Proposals

OTS currently has no legislative proposals.

Capital Investments Summary

OTS has no major IT investments planned for FY 2007.

OTS Performance by Budget Activity

Budget Activity	Performance Measure	FY 2004	FY 2005	FY 2006		FY 2007	FY 2008
		Actual	Actual	Actual	Target Met?	Target	Target
Supervision of the Thrift Industry	Difference between the inflation rate and the OTS assessment rate increase (%) (E)	0	0	0	✓	0	0
	Percent of safety and soundness exams started as scheduled (%) (Ot)	94	93	94	✓	90	90
	Percent of thrifts that are well capitalized (%) (Oe)	99.4	99.5	99.9	✓	95	95
	Percent of thrifts with compliance examination ratings of 1 or 2 (%) (Oe)	94	94	93	✓	90	90
	Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) (Oe)	93	94	93	✓	90	90

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance

OTS met all its performance measure targets in FY 2006. The following is a brief description of each performance measure:

Percent of Safety and Soundness Exams Started as Scheduled. OTS performs safety and soundness examinations of its regulated savings associations consistent with the requirements in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) as amended by the Riegle Community Development and Regulatory Improvement Act of 1994. When safety and soundness or compliance issues are identified during its risk-focused examinations, OTS acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS staff often meets with the savings association's board of directors after delivery of the Report of Examination to discuss findings and recommendations.

Percent of Thrifts with Composite CAMELS Ratings of 1 or 2. On December 9, 1996, the Federal Financial Institutions Examination Council (FFIEC) adopted the CAMELS rating system as the internal rating system to be used by the Federal and State regulators for assessing the safety and soundness of financial

institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. "CAMELS" stands for Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk. OTS assigns a composite CAMELS rating to savings associations at each examination. OTS adjusts the level of supervisory resources devoted to an association based on the composite rating. The CAMELS rating is based upon a scale of 1 through 5 in increasing order of supervisory concern.

Percent of Thrifts with Compliance Examination Ratings of 1 or 2. A uniform, interagency compliance rating system was first approved by the FFIEC in 1980. The FFIEC rating system was designed to reflect, in a comprehensive and uniform fashion, the nature and extent of an association's compliance with consumer protection statutes, regulations and requirements. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern.

OTS began to combine safety and soundness and compliance examinations in 2002 to attain exam efficiencies and to improve risk assessment. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more

frequent intervals, which has improved the quality of the examination process.

Percent of Thrifts that are Well Capitalized. Capital absorbs losses, promotes public confidence and provides protection to depositors and the FDIC insurance fund. It provides a financial cushion that can allow a savings association to continue operating during periods of loss or other adverse conditions. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

Difference Between the Inflation Rate and the OTS Assessment Rate Increase. Without compromising responsibilities and the risk-based examination approach, OTS strives to efficiently manage its operations and budget to ensure that assessment rate increases do not exceed the inflation rate. However, if OTS believes that events require more personnel or other expenditures, OTS may increase assessments to raise the required resources. Annually, OTS analyzes its operating costs and compares them to the assessments it charges savings associations and holding companies in order to achieve a structure that keeps assessment rates as low as possible while providing OTS with the resources necessary for effective supervision.

